

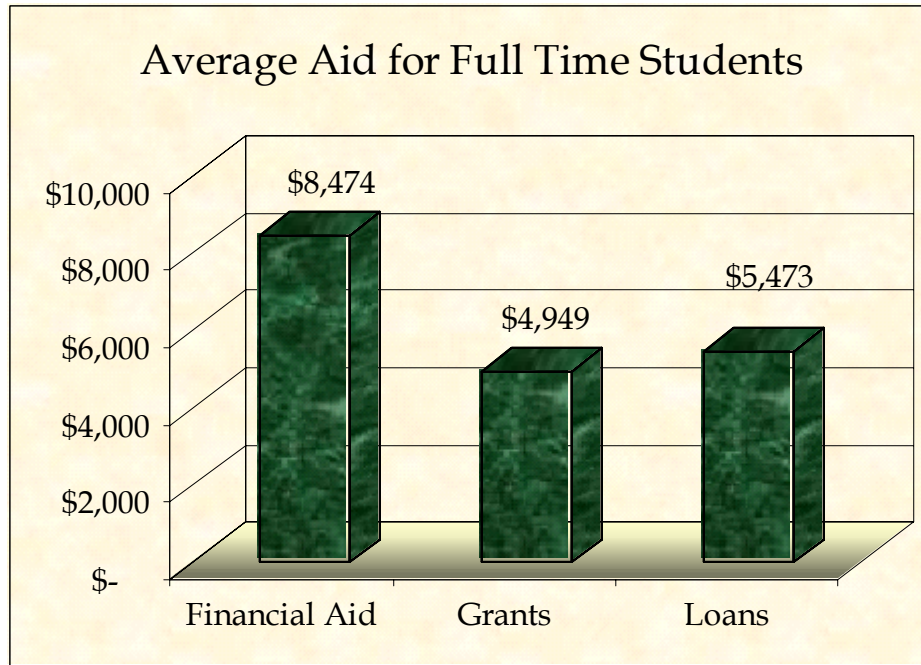
College Student Spending Behavior

By all accounts, the cost of college has risen dramatically in the past 15 years. Prices for tuition, fees, and books have risen by 5 to 10% (and sometimes more) annually for years.

Prices of colleges vary, depending on the type of school a student attends (private/public, two year, four year). According to the College Board, students can expect to pay between \$231 and \$1,114 more in tuition and fees this year, on average, than last year. The average cost for college tuition, room, board and other expenses ranges from: \$10,367 for a two-year community college to \$17,740 for a public four year college to \$26,070 for a private four year college (Source: *American Council on Education*, 2004).

As these costs have risen, an equally dramatic rise in the availability of grants, aid and loans has made college much more affordable than most news articles would lead you to believe. Nearly a third of all students pay less than \$4,000 per year for tuition and fees, and nearly 70% pay less than \$8,000 (Source: *The College Board*, 2004).

Financial aid and grants are available to more students than ever before. Most full time students receive financial aid (72%), grant funding (59%) and/or a loan (45%) to offset the cost of college. Experts estimate that students pay about one-third of the actual costs of a college education. The following chart shows the average aid package for a full time student in 1999-2000 (the most recent year that data was available):



(Source: American Council on Education)

We have also found that today's students have more discretionary income than ever before. Different studies report that students have between \$600 and \$1,100 a month in discretionary spending. The following table shows our estimate of the typical full-time, four-year public college student's spending behavior:



(Sources: *Chronicle of Higher Education, Almanac, 2003-4; Campusclients.com; Student Advantage*)

Nearly 40% of their spending is on discretionary items. Many sources state that college students spend over \$20 billion annually. The vast majority of college students have a job, a cell-phone and a computer. By most accounts, they spend more money online than any other demographic group in our country. Overall, today's students have money to spend on products that appeal to them.

Why do students have more discretionary spending than ever? Much of this can be explained by the changing demographics of today's students. Less than half (43%) of college students are 18-21

years old. The typical college student is in her mid-twenties (57% are women), either lives at home or on campus, and has a job. Students don't feel the need to complete college in 4 consecutive years, and many fluctuate between full-time and part-time study over a period of 5 to 7 years. Changing majors often adds a year, or even more to the course of study. And, most students don't settle into their majors in their first year of school.

Students and faculty often complain about the cost of textbooks and educational materials. In the past decade, as the cost of books has risen, increasing numbers of students have chosen NOT to buy a textbook for a class. Recently, we have seen a surge in student entrepreneurial efforts to find alternative low-cost textbooks; students are importing books from China or India (where they are priced at less than half the US price) and selling them to their colleagues.

O'Donnell & Associates has conducted research in the higher education market for over fourteen years, and in that time, we have talked to thousands of students. Most are shrewd consumers of their education. And, most see college as the means to the goal of a job and future financial security. They are quite willing to spend money on technology and materials that will help them succeed. Textbooks increasingly fail to meet that "success" criterion.

Given that textbooks represent about 4% of student spending—one tenth of their discretionary cash—we question the resistance to buying them. Why do so many students perceive the required textbook to be an optional expense?

We think that the answer lies in the marketing and packaging of the textbook. In a study that O'Donnell & Associates completed for the Association of American Publishers in the mid-1990s, we found a significant gap between faculty and student attitudes about textbooks. Faculty told us that they were endorsing the textbook; but students often did not perceive a strong endorsement. This gap has only widened in recent years. As textbooks have gotten longer, faculty tend to assign less of the book; students then question the need to buy the book.

Most of today's students have used computers throughout their educational life. They are much more comfortable than their professors with mixing media in a learning environment. While students have always complained that textbooks are boring, their expectations of a more interactive environment have increased in recent years. We believe that the publishers have a great opportunity to boost sales by completely rethinking the way that textbook materials are packaged, marketed and delivered to students.